

OMB Circular A-133
Reporting Package

Saginaw Valley State University

Year ended June 30, 2007

Saginaw Valley State University

OMB Circular A-133
Reporting Package

Year ended June 30, 2007

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Audited Financial Statements and
Other Financial Information

Saginaw Valley State University

*Years ended June 30, 2007 and 2006
with Report of Independent Auditors*

Saginaw Valley State University

Audited Financial Statements
and Other Financial Information

Years ended June 30, 2007 and 2006

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SAGINAW VALLEY STATE UNIVERSITY MANAGEMENT'S DISCUSSION AND ANALYSIS

The following provides a discussion and analysis of the financial performance of Saginaw Valley State University (SVSU or University). This discussion, the financial statements and related footnotes have been prepared by and are the responsibility of management.

USING THE ANNUAL REPORT

The annual report consists of a series of financial statements, which have been prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. These financial statements focus on the financial condition and results of financial position of the University and its component unit, Saginaw Valley State University Foundation (Foundation), and the cash flows of the University.

The fundamental objective of the University's financial statements is to provide an overview of the University's economic condition. The various statements and their primary purpose are discussed below.

- Statement of Net Assets. This statement presents information on all University assets and liabilities. It is prepared on an accrual basis - revenues and expenses are recognized when earned or incurred, respectively.
- Statement of Revenues, Expenses, and Changes in Net Assets. This statement presents a summary of revenues and expenses classified as either operating or nonoperating. The operating loss results from the classification of state appropriations as nonoperating revenue. Also, this statement reflects a change in the University's net assets based upon revenues in excess of expenses.
- Statement of Cash Flows. This statement classifies cash inflows and outflows into the following classifications: operating activities, noncapital financing activities, capital financing activities, and investing activities. This information is useful in assessing the University's ability to meet maturing financial obligations.

REPORTING ENTITY

The University is considered a component unit of the State of Michigan because the Governor of the State of Michigan appoints its Board of Control. Accordingly, the University is included in the State's comprehensive annual financial report as a discretely presented component unit.

The financial statements report information about total University operations. In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14*, the Foundation is included in the financial statements of the University as a discretely presented component unit.

**SAGINAW VALLEY STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

FINANCIAL HIGHLIGHTS

The University experienced sound financial performance as indicated by the following:

- Net assets increased by 5.9% from June 30, 2006 to June 30, 2007, 1.3% from June 30, 2005 to June 30, 2006 and .3% from June 30, 2004 to June 30, 2005.
- Operating revenues increased in fiscal 2007, 2006 and 2005 as a result of increased enrollment, tuition rates, housing capacity, and grant activity.

Demand/economic factors underlying this level of performance were favorable:

- Applications increased 9.0% from Fall 2005 to Fall 2006, 3.5% from Fall 2004 to Fall 2005, and 5.5% from Fall 2003 to Fall 2004.
- Headcount enrollment increased from 9,448 in Fall 2004 to 9,569 in Fall 2005 and declined slightly to 9,543 in Fall 2006. Credit hours increased from 223,360 in 2005 to 227,356 in 2006 and 229,646 in 2007.

FINANCIAL STATEMENT SUMMARIES

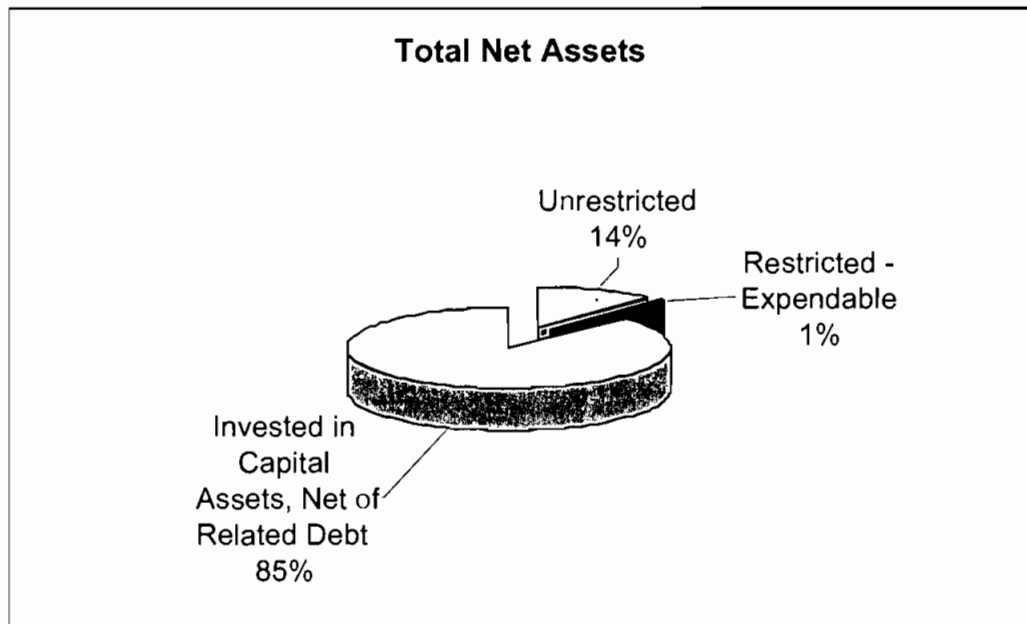
Net assets are summarized in the table below.

Statements of Net Assets			
June 30, 2007, 2006 and 2005			
(in thousands of dollars)			
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assets			
Current Assets	\$ 65,996	\$ 43,721	\$ 49,402
Noncurrent Assets:			
Other	5,095	4,508	4,093
Capital	244,833	229,511	225,232
Total Assets	<u>315,924</u>	<u>277,740</u>	<u>278,727</u>
Liabilities			
Current Liabilities	24,446	18,647	20,040
Noncurrent Liabilities	113,604	91,084	92,897
Total Liabilities	<u>138,050</u>	<u>109,731</u>	<u>112,937</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	150,760	141,937	144,936
Restricted – Expendable	1,656	1,069	880
Unrestricted	25,458	25,003	19,974
Total Net Assets	<u>\$177,874</u>	<u>\$168,009</u>	<u>\$165,790</u>

**SAGINAW VALLEY STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

The University's largest asset is its investment in capital assets, including land, land improvements and infrastructure, buildings, equipment, and construction in progress. Capital assets represent 77.4% of the University's total assets. Notes and bonds payable totaled \$112.9 million at June 30, 2007. This represents 81.8% of the University's total liabilities.

A graphic illustration of net assets by classification and restriction is as follows:



The University's net assets consist of capital assets, net of related debt, expendable restricted net assets and unrestricted net assets. Expendable restricted net assets represent assets whose use is restricted by a party independent of the University. This includes restrictions related to gifts, grants and the Federal Perkins Loan program.

Unrestricted net assets represent net assets of the University that have not been restricted by parties independent of the University. This includes funds that the Board of Control and management have designated for specific purposes as well as amounts that have been contractually committed for goods and services that have not been received as of June 30, 2007. The following summarizes the internal designations of the unrestricted net assets:

	Unrestricted Net Assets		
	June 30, 2007, 2006 and 2005		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Capital projects and repair reserves	\$15,712,274	\$15,192,766	\$11,200,751
Auxiliary enterprises	1,377,650	1,386,375	1,411,903
Designated for departmental use	6,856,228	6,965,010	5,990,205
Amount obligated by contractual commitments	90,102	141,683	285,748
Undesignated	1,421,918	1,317,197	1,084,958
Total unrestricted net assets	<u><u>\$25,458,172</u></u>	<u><u>\$25,003,031</u></u>	<u><u>\$19,973,565</u></u>

**SAGINAW VALLEY STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

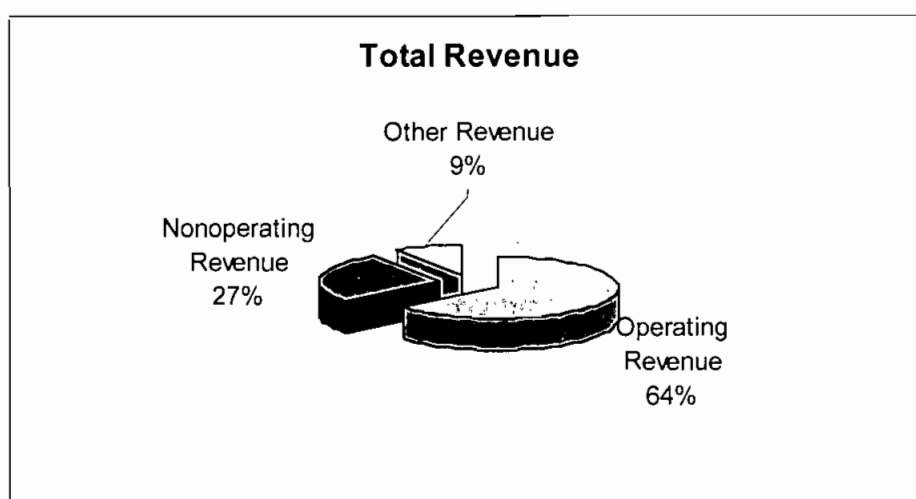
The following table summarizes revenues, expenses, and changes in net assets for the years ended June 30:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(in thousands of dollars)		
Operating Revenues			
Student Tuition and Fees, net	\$42,743	\$40,435	\$36,850
Federal Grants and Contracts	9,411	8,428	8,142
State and Local Grants and Contracts	842	1,091	886
Sales & Services of Educational Departments	3,257	3,136	2,504
Auxiliary Enterprises, net	13,794	12,118	10,697
Other Operating Revenues	1,813	1,614	1,375
Total Operating Revenues	<u>71,860</u>	<u>66,822</u>	<u>60,454</u>
Operating Expenses	<u>98,084</u>	<u>92,427</u>	<u>86,938</u>
Operating Loss	(26,224)	(25,605)	(26,484)
Nonoperating Revenues (Expenses)			
State Appropriations	25,427	27,706	25,934
Gifts	2,038	1,661	1,363
Investment Income, net	2,438	1,686	937
Interest on Capital Asset-Related Debt	(4,214)	(4,021)	(3,454)
Net Nonoperating Revenues	<u>25,689</u>	<u>27,032</u>	<u>24,780</u>
Income (Loss) Before Other Revenues	(535)	1,427	(1,704)
Capital Appropriations	10,050	-	950
Capital Grants and Gifts	350	792	1,270
Total Other Revenues	<u>10,400</u>	<u>792</u>	<u>2,220</u>
Increase in Net Assets	9,865	2,219	516
Net Assets at Beginning of Year	<u>168,009</u>	<u>165,790</u>	<u>165,274</u>
Net Assets at End of Year	<u>\$177,874</u>	<u>\$168,009</u>	<u>\$165,790</u>

**SAGINAW VALLEY STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

Since 2001, SVSU as well as its sister institutions in Michigan have experienced the impact of a poor economy and deficit-ridden state budget. The University's year-end accrual as of June 30, 2007 reflects the July 2007 payment less a base operations reduction of \$822,400 as signed into law via Public Act 17 of 2007. The August payment of \$2,624,800 was delayed by Executive Order 2007-3 and Public Act 17 of 2007. Because there is no appropriated commitment by the State of Michigan to honor the August payment, the amount is not recognized as revenue or a receivable at June 30, 2007. Capital appropriations represent the State of Michigan's contribution to the Pioneer Hall, Regional Education Center, and Library additions and renovations. Capital grants and gifts relate primarily to gifts received from the Creating the Future Campaign for the Regional Education Center, Student Center and Fitness Center.

A graphic illustration of each revenue source follows:



The following table summarizes cash flows for the years ended June 30:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(in thousands of dollars)		
Cash provided (used) by:			
Operating Activities	(\$13,577)	(\$17,510)	(\$14,955)
Noncapital Financing Activities	30,699	28,709	27,755
Capital Financing Activities	(4,653)	(21,217)	2,679
Investing Activities	1,848	1,251	752
Net Increase (Decrease)	<u>14,317</u>	<u>(8,767)</u>	<u>16,231</u>
Cash and Cash Equivalents at Beginning of Year	<u>23,542</u>	<u>32,309</u>	<u>16,078</u>
Cash and Cash Equivalents at End of Year	<u><u>\$37,859</u></u>	<u><u>\$23,542</u></u>	<u><u>\$32,309</u></u>

**SAGINAW VALLEY STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

OPERATING EXPENSES

The University reports expenditures on a functional basis. Operating expenses were \$98,084,485 in fiscal 2007, an increase of 6.1% over the prior year. The following summarizes operating expenses for the years ended June 30:

	2007	2006	2005
	(in thousands of dollars)		
Educational and General			
Instruction	\$33,001	\$31,279	\$29,711
Research	512	700	563
Public Service	2,016	1,906	1,617
Academic Support	11,430	10,537	9,694
Student Services	4,749	4,427	4,007
Institutional Support	10,861	10,010	9,210
Operations and Maintenance of Plant	9,020	8,733	8,564
Depreciation	11,222	10,468	10,019
Student Aid	5,132	4,974	5,130
Auxiliary Enterprises	10,141	9,393	8,423
 Total Operating Expenses	 \$98,084	 \$92,427	 \$86,938

CAPITAL ASSETS/LONG-TERM DEBT

Capital Plan and Related Debt Financing

The University Board of Control has approved a long-term capital development and related financing plan. Fiscal 2007 expenditures for capital projects approximated \$26.6 million. These capital projects were funded by a combination of bonds issued by the Michigan State Building Authority (SBA), University general revenue bonds, capital gifts, and other available University resources.

In fiscal 2001, the University engaged an independent consultant to perform a facilities condition assessment. As a result of this report, a deferred maintenance plan has been developed, including an ongoing commitment of financial resources.

University Rating

The University did not request an underlying bond rating for debt issued in fiscal 2007. By purchase of bond insurance, the University secured the following rating: Moody's: Aaa.

**SAGINAW VALLEY STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED**

FACTORS OR CONDITIONS IMPACTING FUTURE PERIODS

Financial and budget planning is directly related to and supportive of the University's mission and operational needs. The ability to plan effectively is influenced by an understanding of the following factors, which impact the University's finances:

- State Economy
- Inflationary Pressures
- Program Growth and Development
- New Initiatives
- Technology
- Productivity Improvements

SAGINAW VALLEY STATE UNIVERSITY FOUNDATION

The Foundation is an independent corporation formed for the purpose of receiving funds for the sole benefit of the University. The University provided approximately \$958,000 of administrative support to the Foundation during fiscal 2007. This support is reflected as institutional support in the University's financial statements and as gift revenue and corresponding operating expenses in the Foundation's financial statements. The Foundation transferred endowment distributions and unrestricted and restricted gifts to the University totaling \$2,387,590 in fiscal 2007. The net assets of the Foundation were as follows as of June 30, 2007:

Nonexpendable restricted	\$33,833,808
Expendable restricted	6,679,522
Unrestricted	3,308,756
	<u>\$43,822,086</u>



ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

Report of Independent Auditors

Board of Control
Saginaw Valley State University

We have audited the accompanying financial statements of Saginaw Valley State University, a component unit of the State of Michigan as of and for the years ended June 30, 2007 and 2006 and Saginaw Valley State University Foundation, a discretely presented component unit of the University, as of and for the years ended June 30, 2007 and 2006. These financial statements are the responsibility of the University's administration. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the administration, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Saginaw Valley State University and its discretely presented component unit, Saginaw Valley State University Foundation as of June 30, 2007 and 2006, and the changes in their financial position and Saginaw Valley State University's cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2007 on our consideration of Saginaw Valley State University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report when considering the results of our audits.

The Management's Discussion and Analysis (MD&A) on pages i to vii is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements of Saginaw Valley State University and its discretely presented component unit, Saginaw Valley State University Foundation, taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Andrews Hooper & Pavlik P.L.C.

Saginaw, Michigan
August 24, 2007

SAGINAW VALLEY STATE UNIVERSITY

STATEMENTS OF NET ASSETS

	June 30, 2007		June 30, 2006	
	SVSU	Component Unit SVSU Foundation	SVSU	Component Unit SVSU Foundation
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 37,858,884	\$ 2,678,533	\$ 23,541,574	\$ 1,543,676
Short-term investments		2,945		6,510
Accounts receivable, net	13,159,438	3,914,832	3,490,555	3,923,215
State appropriations receivable - operations	1,802,708		5,122,327	
State appropriations receivable - charter schools	11,457,926		10,084,696	
Inventories and prepaid expenses	1,701,845		1,465,895	
Notes receivable, net	14,885		16,036	
Total current assets	65,995,686	6,596,310	43,721,083	5,473,401
Noncurrent Assets				
Cash and cash equivalents, restricted		85,565		1,457,187
Notes receivable, net	29,770		32,072	
Accounts receivable, net		5,211,892		6,695,135
Endowment investments		32,411,990		23,867,990
Other long-term investments	5,065,328		4,475,858	
Capital assets, net	244,833,068		229,511,435	
Total noncurrent assets	249,928,166	37,709,447	234,019,365	32,020,312
Total assets	315,923,852	44,305,757	277,740,448	37,493,713
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	6,847,919	483,671	3,291,705	414,881
Deferred revenues	4,874,121		4,293,681	
Deposits	10,516,462		8,921,207	
Long-term liabilities - current portion	2,207,544		2,140,004	
Total current liabilities	24,446,046	483,671	18,646,597	414,881
Noncurrent Liabilities				
Long-term liabilities	113,604,130		91,084,415	
Total noncurrent liabilities	113,604,130	-	91,084,415	-
Total liabilities	138,050,176	483,671	109,731,012	414,881
NET ASSETS				
Invested in capital assets, net of related debt	150,759,351		141,937,427	
Nonexpendable Restricted				
Scholarships		11,963,734		9,047,721
Endowed chairs		11,693,750		11,647,537
Other		10,176,324		9,943,562
Expendable Restricted				
Capital		444,319		799,156
Scholarships and fellowships	538,601	284,170	367,683	326,942
Research	33,592		78,894	
Instructional department use	270,178		107,908	
Loans	8,124		10,403	
Other	805,658	5,951,033	504,090	3,006,307
Unrestricted	25,458,172	3,308,756	25,003,031	2,307,607
Total net assets	\$ 177,873,676	\$ 43,822,086	\$ 168,009,436	\$ 37,078,832

SAGINAW VALLEY STATE UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS

	For the year ended June 30, 2007		For the year ended June 30, 2006	
	SVSU	Component Unit SVSU Foundation	SVSU	Component Unit SVSU Foundation
REVENUES				
Operating revenues				
Student tuition and fees	\$ 50,318,041		\$ 47,151,649	
Less: Scholarship allowances	(7,574,540)		(6,716,746)	
	42,743,501		40,434,903	
Federal grants and contracts	9,411,035		8,428,262	
State and local grants and contracts	842,068		1,090,878	
Gifts		\$ 2,132,757		\$ 1,942,574
Sales and services of educational departments	3,256,750		3,135,998	
Auxiliary enterprises	15,532,012		13,546,841	
Less: Scholarship allowances	(1,738,417)		(1,428,345)	
	13,793,595		12,118,496	
Other operating revenues	1,813,054		1,613,421	
Total operating revenues	71,860,003	2,132,757	66,821,958	1,942,574
EXPENSES				
Operating expenses				
Educational and general				
Instruction	33,001,185		31,278,498	
Research	512,024		700,448	
Public service	2,016,022		1,905,624	
Academic support	11,430,576		10,537,364	
Student services	4,748,689		4,427,627	
Institutional support	10,861,056	958,290	10,009,721	911,234
Operations and maintenance of plant	9,019,985		8,732,718	
Depreciation	11,221,633		10,468,401	
Student aid	5,131,755		4,974,131	
Auxiliary enterprises	10,141,560		9,392,780	
Total operating expenses	98,084,485	958,290	92,427,312	911,234
Operating income (loss)	(26,224,482)	1,174,467	(25,605,354)	1,031,340
NONOPERATING REVENUES (EXPENSES)				
State appropriations	25,427,300		27,706,300	
Gifts	2,037,832	(2,037,832)	1,661,505	(1,661,505)
Investment income, net	2,437,822	4,761,389	1,685,814	1,877,630
Interest on capital asset-related debt	(4,213,924)		(4,021,255)	
Net nonoperating revenues (expenses)	25,689,030	2,723,557	27,032,364	216,125
Income (loss) before other revenues	(535,452)	3,898,024	1,427,010	1,247,465
Capital appropriations	10,049,934			
Additions to permanent endowments		3,194,988		7,682,720
Capital grants and gifts	349,758	(349,758)	792,837	(792,837)
Total other revenues (expenses)	10,399,692	2,845,230	792,837	6,889,883
Increase in net assets	9,864,240	6,743,254	2,219,847	8,137,348
Net assets - beginning of year	168,009,436	37,078,832	165,789,589	28,941,484
Net assets - end of year	\$ 177,873,676	\$ 43,822,086	\$ 168,009,436	\$ 37,078,832

SAGINAW VALLEY STATE UNIVERSITY

STATEMENTS OF CASH FLOWS

	For the years ended June 30,	
	2007	2006
Cash Flows from Operating Activities		
Student tuition and fees	\$ 43,390,362	\$ 40,509,844
Grants and contracts	10,504,365	8,514,437
Payments to suppliers	(17,615,849)	(16,367,599)
Payments for utilities	(3,091,459)	(3,100,348)
Payments to employees	(45,633,150)	(46,412,096)
Payments for benefits	(13,957,006)	(11,657,633)
Payments for scholarships and fellowships	(5,617,247)	(5,371,604)
Federal share of Perkins loans	(15,534)	(30,663)
Collection of loans to students	3,453	30,119
Auxiliary enterprises charges	13,622,954	11,793,288
Sales and services	3,019,244	2,968,713
Other receipts	1,813,054	1,613,421
Net cash used by operating activities	(13,576,813)	(17,510,121)
Cash Flows from Noncapital Financing Activities		
State appropriations	28,746,919	27,130,235
Federal Direct Lending receipts	29,454,273	29,383,070
Federal Direct Lending disbursements	(29,454,273)	(29,383,070)
Gifts	1,951,579	1,578,326
Net cash provided by noncapital financing activities	30,698,498	28,708,561
Cash Flows from Capital Financing Activities		
Capital appropriations	160,000	550,049
Capital grants and gifts received	349,758	792,837
Principal paid on capital debt	(2,070,000)	(1,830,000)
Proceeds from capital debt	24,435,000	
Interest paid on capital debt and related costs	(3,593,505)	(3,698,492)
Purchase of capital assets	(23,933,980)	(17,030,935)
Net cash used by capital financing activities	(4,652,727)	(21,216,541)
Cash Flows from Investing Activities		
Interest on investments	1,848,352	1,250,566
Net cash provided by investing activities	1,848,352	1,250,566
Net increase (decrease) in cash and cash equivalents	14,317,310	(8,767,535)
Cash and cash equivalents - beginning of the year	23,541,574	32,309,109
Cash and cash equivalents - end of year	\$ 37,858,884	\$ 23,541,574

SAGINAW VALLEY STATE UNIVERSITY
STATEMENTS OF CASH FLOWS - CONTINUED

	For the years ended June 30,	
	2007	2006
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	\$ (26,224,482)	\$ (25,605,354)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	11,221,633	10,468,401
Changes in assets and liabilities:		
Accounts receivable, net	(1,065,926)	(3,017,240)
Inventories and prepaid expenses	52,313	(8,538)
Notes receivable, net	3,453	30,119
Accounts payable and accrued liabilities	716,928	(1,164,571)
Deferred revenues	(39,353)	647,378
Deposits	1,595,255	947,607
Compensated absences	178,900	222,740
Student loan - federal	(15,534)	(30,663)
Net cash used by operating activities	\$ (13,576,813)	\$ (17,510,121)

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements have been prepared to incorporate all fund groups utilized internally by Saginaw Valley State University (University) and include Saginaw Valley State University Foundation (Foundation), a discretely presented component unit of the University. The University's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The Foundation's financial information has been prepared on the accrual basis following accounting policies established by the Financial Accounting Standards Board (FASB).

Reporting Entity

The University's financial statements are presented discretely in the State of Michigan Comprehensive Annual Financial Report in accordance with GASB Statement No. 14. Public universities with governing boards appointed by the Governor are considered component units of the State. Transactions with the State relate primarily to appropriations for operations and capital projects and grants from various state agencies.

The Saginaw Valley State University Foundation, a component unit of the University, is a not-for-profit corporation, which provides support for the objectives and purposes of the University.

Basis of Accounting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting whereby all revenues are recorded when earned and all expenses are recorded when they have been incurred.

In accordance with GASB Statement No. 20, the University is required to follow all applicable GASB pronouncements. In addition, the University applies all applicable FASB Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected not to apply FASB pronouncements issued after November 30, 1989.

The Foundation has applied all applicable FASB pronouncements issued to date.

Revenue Recognition

Operating revenues of the University consist of tuition and fees, grants and contracts, sales and services, and auxiliary enterprises revenue. These revenues represent revenue earned from exchange transactions and are reported net of discounts. The University's nonoperating revenues include State appropriations, gifts, investment income, capital appropriations, and grants. When both restricted and unrestricted resources are available for expenses, the University applies the restricted and unrestricted resources as its discretion.

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE A – SIGNIFICANT ACCOUNTING POLICIES
(continued)

Revenue Recognition – Continued

Funds are appropriated to the University for operations by the State of Michigan covering the State's fiscal year, October 1 through September 30. The sums appropriated, however, were for the University's fiscal year ending June 30 and are generally paid in eleven monthly installments from October through August. The University's year-end accrual as of June 30, 2007 reflects the July 2007 payment less a base operations reduction of \$822,400 as signed into law via Public Act 17 of 2007. The August payment of \$2,624,800 was delayed by Executive Order 2007-3 and Public Act 17 of 2007. Because there is no appropriated commitment by the State of Michigan to honor the August payment, the amount is not recognized as revenue or a receivable at June 30, 2007. For fiscal 2006 both the July and August payments were recorded.

The Foundation recognizes a gift when the donor makes a pledge that is, in substance, unconditional. The Foundation uses the allowance method to determine uncollectible unconditional pledges receivable. The allowance is based on prior years' experience and management's analysis of specific promises.

Accounts Receivable

Accounts receivable are stated at the outstanding principal balance adjusted for any charge-offs and the allowance for doubtful accounts.

The University determines the allowance for doubtful accounts based on an evaluation of accounts receivable, past and recent experience, current economic conditions, and other pertinent factors. The allowance for doubtful accounts is increased by the provision charged to expenses and reduced by charge-offs. The University considers receivables past due when they have not been paid within their contractual terms. The University charges off receivables when the receivable is deemed uncollectible.

Investments

Investments are reported at fair value. Investment income includes realized and unrealized gains and losses on investments, interest and dividends.

Inventories

Inventories are stated at lower of average cost or market.

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE A – SIGNIFICANT ACCOUNTING POLICIES
(continued)

Institutional Physical Properties

Physical properties are stated at cost or, when donated, at fair market value at date of gift. The University uses a \$500 threshold for capitalizing assets. Depreciation is computed using the straight-line method over the useful life of the property as follows:

<u>Classification</u>	<u>Life</u>
Land improvements & infrastructure	15 years
Buildings	20 - 50 years
Equipment	4 - 15 years
Library acquisitions	10 years

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts. The cost of maintenance and repairs are expensed as incurred; significant renewals and improvements are capitalized.

Reclassifications

Certain fiscal year 2006 balances have been reclassified to conform to the current year presentation.

NOTE B - CASH AND CASH EQUIVALENTS AND INVESTMENTS-UNIVERSITY

The University utilizes the “pooled cash” method of accounting for substantially all of its cash and cash equivalents in order to maximize investment return. The investment policy for pooled cash, approved by the Board of Control, divides cash for purposes of investment into three asset groups: short-term pool, intermediate-term pool and long-term pool. The University did not have funds in the intermediate-term pool as of June 30, 2007 or 2006.

Credit Risk

The University’s investment policy requires that investments shall be in marketable securities of the following types and with the noted credit ratings:

1. Debt securities which are rated Aaa, Aa, A or Baa by Moody's Investors Service, Inc. or AAA, AA, A or BBB by Standard & Poor's Corporation.
2. Obligations of, or guaranteed by, the United States of America, its agencies or instrumentalities.
3. Obligations of, or guaranteed by, national or state banks or bank holding companies, which obligations, although not rated as a matter of policy by either Moody's Investors Service, Inc., or Standard & Poor's Corporation are rated AAA, AA or A by Fitch Investors Service, Inc.

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE B - CASH AND CASH EQUIVALENTS AND INVESTMENTS-UNIVERSITY
(continued)

4. Commercial paper rated Prime-1, Prime-2 or Prime-3 by Moody's Investors Service, Inc.
5. Bankers' acceptances or negotiable certificates of deposit issued by banks and rated AAA, AA or A by Fitch Investors Service, Inc.
6. Repurchase agreements secured by securities qualifying under clauses (1) through (5) above.
7. Commingled funds may be used if they are in compliance with the above guidelines.

Investments in short-term pool funds are restricted to U.S. Treasury and government agency securities and high quality corporate securities and commercial and bank paper.

Investments in intermediate-term pool funds are restricted to securities which are rated A or better at the time of purchase. At least two-thirds of the holdings of a fund will be in U.S. Government obligations, government agency securities and corporate securities rated AAA.

Interest Rate Risk

As a means of managing its exposure to fair value losses arising from increasing interest rates, the University's investment policy limits the average weighted maturity for a short-term portfolio to between one day and one year and the average weighted maturity for the intermediate-term portfolio to between one year and three years. Permanent core cash may be invested in the Commonfund Absolute Return Fund or a similar fund offered by other financial institutions.

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE B – CASH AND CASH EQUIVALENTS AND INVESTMENTS-UNIVERSITY

(continued)

The following table summarizes the components of the University's cash and cash equivalents and investments at June 30, 2007 and 2006:

<u>Investment Type</u>	<u>Rating</u>	<u>Fair Market Value</u>	
		<u>2007</u>	<u>2006</u>
Deposits:			
LaSalle Bank – Public Funds	Moody's Aaa Standard & Poor's AAAm	\$ 1,848,855	\$ 2,740,637
Commonfund Short Term Fund	Average Quality of Fund Investments: AAA	37,683,963	22,582,374
Investments:			
Mutual Funds – Commonfund Absolute Return Fund	N/A	5,065,328	4,475,858
		\$44,598,146	\$29,798,869
Less Investments Reported as "Cash and Cash Equivalents" on Statement of Net Assets		(39,532,818)	(25,323,011)
Total Investments		<u>\$ 5,065,328</u>	<u>\$ 4,475,858</u>
<u>As reported on the Statement of Net Assets</u>			
Noncurrent Investments		\$ 5,065,328	\$ 4,475,858
Total Investments		<u>\$ 5,065,328</u>	<u>\$ 4,475,858</u>
Investments Reported as Cash and Cash Equivalents		\$39,532,818	\$25,323,011
Cash		(1,673,934)	(1,781,437)
Total Cash and Cash Equivalents		<u>\$37,858,884</u>	<u>\$23,541,574</u>

The effective duration of investments in the Commonfund Short Term Fund is 3.3 months.

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE B – CASH AND CASH EQUIVALENTS AND INVESTMENTS-UNIVERSITY

(continued)

Concentration of Credit Risk

The University's investment policy does not specifically address concentrations of credit risk. Cash and cash equivalents consist primarily of funds invested with either a bank short-term investment pool or the Commonfund Short Term Fund. The yield was 5.26% for 2007 and 4.12% for 2006. The University's noncurrent investments consisted of investment in the Commonfund Absolute Return Fund.

Foreign Currency Risk

The University did not have holdings in foreign investments as of June 30, 2007 or 2006.

Custodial Credit Risk

For deposits, custodial credit risk is present if the deposits are not covered by depository insurance and are 1) uncollateralized; 2) collateralized with securities held by the pledging financial institution; or 3) collateralized with securities held by the pledging financial institution's trust department or agent in the University's name. Cash and cash equivalents as reflected in the accounts of the investment institutions at June 30, 2007 were \$40,061,394. Of that balance \$39,931,410 was uninsured and uncollateralized. Cash and cash equivalents as reflected in the accounts of the investment institutions at June 30, 2006 were \$25,592,837. Of that balance \$25,456,516 was uninsured and uncollateralized.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The University has no custodial credit risk in its investments as of June 30, 2007 or 2006.

NOTE C – INVESTMENTS - FOUNDATION

The primary objective of the Foundation's investment policy, approved by the Foundation Board, is to increase the purchasing power of the Foundation's assets after inflation while maintaining a distribution policy as established by the Foundation Board. The secondary objective is to consistently earn a high, long-term, total rate of return without undue risk exposure or volatility.

Credit Risk

The Foundation's investment policy requires that fixed income investments emphasize high-quality and that on average, the portfolio should have a rating of "A" or better as defined by a majority of the major credit rating agencies.

Interest Rate Risk

As a means of managing its exposure to fair value losses arising from increasing interest rates, the Foundation's investment policy limits the maximum maturity for any single security to 40 years; mortgage bonds will be on an average maturity basis with the weighted average maturity not to exceed ten years.

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE C – INVESTMENTS - FOUNDATION

(continued)

The following table summarizes the components of the Foundation's investments at June 30, 2007 and 2006:

<u>Investment Type</u>	<u>Rating</u>	<u>Fair Market Value</u>	
		<u>2007</u>	<u>2006</u>
Commonfund Short Term Fund	Average Quality of Investments: AAA	\$ 379,959	\$ 1,001,861
Commonfund Intermediate Term Fund	Average Quality of Investments: AA+	3,369,578	4,145,034
Equities	N/A	4,437,000	16,425,392
Mutual fund – equities	N/A	12,694,751	334,910
Mutual fund - international equities	N/A	5,176,993	1,887,386
Mutual fund – debt	N/A	4,626,961	
Alternative investments	N/A	1,729,693	79,917
Cash and cash equivalents	N/A	85,565	1,457,187
		<u>32,500,500</u>	<u>25,331,687</u>
Less Investments Reported as "cash and cash equivalents, restricted" on Statement of Net Assets		(85,565)	(1,457,187)
Total Investments		<u>\$32,414,935</u>	<u>\$23,874,500</u>
<u>As reported on the Statement of Net Assets</u>			
Short-term investments		\$ 2,945	\$ 6,510
Endowment Investments		32,411,990	23,867,990
		<u>\$32,414,935</u>	<u>\$23,874,500</u>

The effective duration of investments in the Commonfund Short Term Fund is 3.3 months. The weighted average life of investments in the Commonfund Intermediate Term Fund is 2.2 years and the effective duration is 1.5 years.

Mutual fund – debt have the following quality of investment:

- Harbor Bond Fund – 57% AAA, 29% AA, 5% A, 7% BBB, 2% other;
- Loomis Sayles Global Bond Fund – 67% AAA, 13% AA, 4% A, 14% BBB, 2% other.

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE C – INVESTMENTS - FOUNDATION
(continued)

Concentration of Credit Risk

The Foundation recognizes that, over the long term, equity investments provide the best opportunity to achieve the objectives and goals of the Endowment Fund. However, a degree of diversification in other forms of investments is prudent. To accomplish the endowment investment objectives, investment managers are authorized to utilize portfolios of equity securities, fixed-income securities, alternative investments, and short-term investments (cash and cash equivalents). The total portfolio shall be maintained within the following ranges:

	<u>Minimum</u>	<u>Maximum</u>
Equities	50%	70%
Fixed income	20%	40%
Alternative Investments		20%
Cash/Short-term Investments		10%

The investments shall be reviewed quarterly to ensure the Endowment assets are within these ranges.

To ensure diversification in the investment equity portfolio, the Foundation's investment policy limits investment in an individual common stock to 10% of a given investment manager's portfolio based on market value. Additionally, within each separately managed account, economic sector allocations must be less than twice that of the same economic sector as defined by the market benchmark. For the fixed income portfolio, with the exception of securities guaranteed by the U.S. Government, the securities of single issuers should not exceed five percent of the market value of the investment manager's portfolio.

At June 30, 2007, the Foundation's investments that exceeded five percent of the investment portfolio included the Commonfund Intermediate Term Fund (\$3,369,578), Vanugard 500 Index Fund (\$4,785,578), DFA US Large Cap Value Portfolio (\$3,183,188), Vanguard Mid Cap Index Fund (\$3,249,278), Harbor International Fund (\$2,720,977), Harbor Bond Fund (\$3,196,516), and the William Blair Funds International Growth Fund Class I (\$2,456,016).

Foreign Currency Risk

The Foundation investment policy states that foreign denominated investments should not exceed 20% of the portfolio. The Foundation's holdings in foreign investments were made in mutual funds as noted above. In addition, the Foundation had \$239,036 in foreign equities at June 30, 2007 and \$749,519 at June 30, 2006.

Custodial Credit Risk

The Foundation has engaged Comerica Bank to serve as custodian of the endowment investments. The custodian maintains physical possession of securities owned by the Foundation, collects dividend and interest payments, redeems maturing securities, and affects receipt and delivery following purchases and sales. The custodian also performs regular accounting of all assets owned, purchased or sold.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investments or collateral securities that are in the

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE C – INVESTMENTS - FOUNDATION

(continued)

possession of an outside party. Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

NOTE D - ACCOUNTS RECEIVABLE AND NOTES RECEIVABLE

The University's accounts receivable relate to several transactions including State appropriations, student tuition and fee billings and auxiliary enterprise sales, such as food service and residence halls. In addition, receivables arise from grant awards, financial aid, and billings related to capital assets. The details of accounts receivable, excluding State appropriations, as of June 30, 2007 and 2006 are listed below in the table:

	June 30,	
	2007	2006
Tuition and fees	\$ 1,203,087	\$1,238,670
Auxiliary enterprises	981,580	645,199
Contracts and grants	1,823,072	2,268,078
Sales and services	530,232	387,423
State Building Authority	9,889,934	
Agency accounts	51,172	82,012
Allowance for uncollectible accounts	(1,319,639)	(1,130,827)
Total accounts receivable	\$13,159,438	\$3,490,555

Notes receivable represent the remaining balance of loans issued to students under the Federal Perkins Loan Program. Notes receivable are recorded net of allowance for uncollectible accounts of \$8,000 at June 30, 2007 and \$18,000 at June 30, 2006. As of July 1, 1996, Saginaw Valley State University terminated participation in the Federal Perkins Loan Program. The University will retain and administer the loan portfolio until all outstanding loans are liquidated. Additionally, the University must return to the United States Department of Education annually the Federal share of any cash-on-hand as of June 30. Federal cash-on-hand as of June 30, 2007 was returned in July, 2007.

Based on Senate Bill 905, PA 273 of 1998, State appropriations are recorded principally on the accrual basis, when earned. As a result, the University recorded State appropriations receivable of \$1,802,708 at June 30, 2007 and \$5,122,327 at June 30, 2006. Charter schools appropriations receivable were recorded at June 30, 2007 of \$11,457,926 and at June 30, 2006 of \$10,084,696. The University has recorded a corresponding amount due to the charter schools. The University received \$63,484,260 of State appropriations to be forwarded to eighteen (18) charter schools for fiscal 2007 and \$56,127,805 for fiscal 2006.

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE D - ACCOUNTS RECEIVABLE AND NOTES RECEIVABLE
(continued)

The detail of the Foundation's accounts receivable for June 30, 2007 and 2006 are listed below in the table:

	June 30,	
	2007	2006
Pledges receivable	\$6,257,665	\$ 7,776,261
Less: allowance for uncollectible pledges	347,316	450,819
Less: discount to reflect promise to give at fair value	321,935	682,261
	5,588,414	6,643,181
Interest in trusts held by others	3,536,693	3,965,400
Accrued interest	1,617	9,769
Total Foundation accounts receivable	\$9,126,724	\$10,618,350
Current	\$3,914,832	\$ 3,923,215
Non-current	5,211,892	6,695,135
Total Foundation accounts receivable	\$9,126,724	\$10,618,350

NOTE E - CAPITAL ASSETS

The following table presents the changes in the various capital asset categories:

Asset Classification	Balance at June 30, 2006	Additions	Retirements	Balance at June 30, 2007
Land	\$ 1,914,038		\$ (31,235)	\$ 1,882,803
Land improvements and infrastructure	19,577,518	\$ 1,084,779		20,662,297
Buildings	249,518,237	17,056,771		266,575,008
Equipment	45,825,642	2,998,429	(2,719,259)	46,104,812
Library acquisitions	9,712,758	726,029	(429,984)	10,008,803
Construction in progress	3,935,274	4,701,250		8,636,524
Works of fine art	599,842	7,243		607,085
Accumulated depreciation:				
Land improvements and infrastructure	(9,481,280)	(887,730)		(10,369,010)
Buildings	(56,922,531)	(6,454,851)		(63,377,382)
Equipment	(28,477,195)	(3,317,925)	2,719,259	(29,075,861)
Library acquisitions	(6,690,868)	(561,127)	429,984	(6,822,011)
Total capital assets, net	\$229,511,435	\$15,352,868	\$ (31,235)	\$244,833,068

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE F - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities represent amounts due at June 30 for goods and services received prior to the end of the fiscal year. Listed below is a breakdown of those liabilities:

	June 30,	
	2007	2006
Compensation	\$1,323,763	\$ 849,566
Supplies and construction related expenditures	5,524,156	2,442,139
Total accounts payable and accrued liabilities	\$6,847,919	\$3,291,705

NOTE G - NOTES AND BONDS PAYABLE

The University issued General Revenue Bonds, Series 2007, in the amount of \$24,435,000 in March 2007 to fund various capital projects. The interest rate of the 2007 bonds range from 4.00% to 5.00% and mature at various dates through July 1, 2037.

The University issued General Revenue Bonds, Series 2005, in the amount of \$28,010,000 in April 2005 to fund various capital projects and to advance refund and defease a portion of the outstanding General Revenue Bonds, Series 1998, 1999 and 2001A. The University deposited noncallable, U.S. Government securities in an irrevocable trust with an escrow agent to advance refund and defease the bonds. The refunded bonds will be called for redemption on their respective first call date (July 1, 2008 for the 1998 bonds, July 1, 2009 for the 1999 bonds, and July 1, 2010 for the 2001A bonds). The bonds were refunded in order to reduce the University's debt service.

The deferred amount on refunding is the difference between the reacquisition price (funds required to be deposited in escrow to refund the old bonds) and the net carrying amount of the old debt, calculated as follows:

Reacquisition price	\$19,832,228
Net carrying amount of old bonds	18,360,000
Deferred amount on refunding	\$ 1,472,228

The deferred amount on refunding is being amortized over the remaining life of the old bonds and represents a reduction to long-term debt.

The difference in the cash flow requirements of the portion of the Series 2005 General Revenue Bonds used to advance refund the old bonds and the advance refunded old bonds is a gain on refundings of \$880,569 (\$30,553,381 debt service of the new bonds versus \$31,433,950 the debt service requirements of the old bonds). The present value of the gain at 4.313%, the effective rate of the new bonds, was \$709,618.

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE G - NOTES AND BONDS PAYABLE
(continued)

The University issued General Revenue Bonds, Series 2004B, in the amount of \$3,165,000 in October 2004 to fund various capital projects.

The University issued General Revenue Bonds, Series 2004A, in the amount of \$11,825,000 in July 2004 to fund various capital projects and to refund and defease \$3,385,000 of the General Revenue Bonds, Series 1993. The refunded bonds were called for redemption on August 17, 2004. The bonds were refunded to reduce the University's debt service.

The University issued General Revenue Bonds, Series 2001B, in the amount of \$24,400,000 on November 13, 2001 to finance various capital projects. The bonds are select auction variable rate securities (SAVRS); therefore, they pay interest at a rate, which is determined at auction every thirty-five days. The interest rate in effect at June 30, 2007 was 3.70% plus a .25% broker fee. In December 2003, the University entered into a rate swap in connection with these bonds which effectively changed the University's variable rate to a fixed rate of 3.635% plus a 0.25% broker fee through January 1, 2014.

The swap agreement was entered into as a means to fix the variable-rate bonds and minimize long-term interest rate risk. Under the swap agreement, the University pays the counterparty a fixed payment equal to the fixed rate of 3.635% and receives a variable payment from the counterparty at the floating rate. The floating rate is calculated at 67% of USD-LIBOR-BBA if the LIBOR reference rate is equal to or greater than 3.00% and the BMA Municipal Bond Index if the LIBOR reference rate is less than 3.00%.

The mark-to-market value of the swap has been estimated to be \$2,134 as of June 30, 2007, in favor of the counterparty. The University is exposed to credit risk, which is the risk that the counterparty will not fulfill its obligations whenever the swap has a positive fair value to the University. As of June 30, 2007, while the counterparty was not rated by an independent rating agency, the guarantor was rated A1 by Moody's, and A+ by Standard & Poor's.

The swap exposes the University to basis risk, which is the risk that arises when variable interest rates on a derivative and an associated bond or other interest-paying financial instruments are based on different indexes. As these rates change, the overall synthetic rate on the bonds will change.

The swap agreement uses the International Swaps and Derivatives Association, Inc. (ISDA) Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. In addition, the Master Agreement includes additional termination events. If the swap is terminated, the variable rate bonds would no longer carry a synthetic interest rate and the University may be required to pay an amount equal to the swap's fair value, if negative.

The University issued General Revenue Bonds, Series 2001A, in the amount of \$15,560,000 on January 15, 2001 to finance various capital projects.

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE G - NOTES AND BONDS PAYABLE
(continued)

The University issued General Revenue Bonds, Series 1999, in the amount of \$8,460,000 on September 14, 1999 to finance a student housing facility.

The University issued General Revenue Bonds, Series 1998, in the amount of \$24,985,000 on April 14, 1998 to finance three major capital projects. The projects included construction of a general-purpose classroom building, construction of a new on-campus student housing facility and renovation of existing student residence halls. The State of Michigan funded 75% of the cost of the general-purpose classroom building.

Bond proceeds were also used to discharge obligations under the Series 1995 Note and the Series 1997 Note. Also, a portion of the Series 1993 Bonds and Series 1996 Bonds were refunded and defeased from bond proceeds. The interest rates of the 1998 bonds range from 4.60% to 5.30% and mature at various dates through July 1, 2028. The bonds maturing on or after July 1, 2009, are subject to redemption in whole or in part on any date on or after July 1, 2008. The redemption price ranges from 100% to 102% of the principal to be redeemed.

On June 10, 2005 the University entered into two interest rate swap agreements in connection with forward refunding of select General Revenue Bonds. The first swap agreement, in the total notional amount of \$13,800,000, relates to Series 2008 General Revenue Refunding Bonds. The second, in the total notional amount of \$8,300,000, relates to Series 2010 General Revenue Refunding Bonds. It is the University's intent to issue the 2008 bonds for current refunding of the then remaining outstanding General Revenue Bonds, Series 1998 and to issue the 2010 bonds for current refunding of the then remaining outstanding General Revenue Bonds, Series 2001A. The bonds will also cover issuance costs.

The swap agreements were entered into in order to take advantage of the favorable rate market. Under the swap agreements, the University would pay the counterparty a fixed payment equal to the fixed rate of 3.57% for the 2008 bonds and 3.655% for the 2010 bonds. The University would receive a variable payment from the counterparty at the floating rate. The floating rate would be calculated at 73% of USD-LIBOR-BBA. These swap agreements are subject to the ISDA Master Agreement between the University and the Counterparty.

The mark-to-market value of the swaps has been estimated to be \$633,850 and \$391,206, respectively, as of June 30, 2007, in favor of the University.

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE G - NOTES AND BONDS PAYABLE
(continued)

Notes and bonds payable consist of the following:

	Interest Rates	Maturity	Outstanding Balance June 30,	
			2007	2006
General Revenue Bonds, series 2007	4.00%-5.00%	2010-2037	\$24,435,000	
General Revenue Bonds, series 2005	3.00%-4.50%	2007-2035	27,605,000	\$27,890,000
General Revenue Bonds, series 2004B	3.50%-4.625%	2014-2034	3,025,000	3,095,000
General Revenue Bonds, series 2004A	3.00%-5.00%	2007-2034	11,125,000	11,465,000
General Revenue Bonds, series 2001B	SAVRS 3.635%	2017-2032	24,400,000	24,400,000
General Revenue Bonds, series 2001A	4.50%-5.50%	2007-2030	9,125,000	9,455,000
General Revenue Bonds, series 1999	5.00%-5.63%	2007-2029	380,000	560,000
General Revenue Bonds, series 1998	4.60%-5.30%	2007-2028	14,145,000	15,010,000
Total			<u>\$114,240,000</u>	<u>\$91,875,000</u>

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE G - NOTES AND BONDS PAYABLE
(continued)

The principal and interest on the notes and bonds are payable only from certain general revenues. The following table summarizes debt service requirements:

Year Ended June 30	Principal	Interest	Interest Rate Swap-Net	Total
2008	\$2,150,000	\$5,084,197	(\$15,860)	\$ 7,218,337
2009	2,235,000	4,993,956	(15,860)	7,213,096
2010	2,490,000	4,899,017	(15,860)	7,373,157
2011	2,715,000	4,795,970	(15,860)	7,495,110
2012	2,830,000	4,686,959	(15,860)	7,501,099
2013-2017	16,260,000	21,568,809	(23,790)	37,805,019
2018-2022	20,600,000	17,738,781		38,338,781
2023-2027	25,635,000	12,585,310		38,220,310
2028-2032	26,725,000	6,272,794		32,997,794
2033-2037	12,600,000	1,934,344		14,534,344
	<u>\$114,240,000</u>	<u>\$84,560,137</u>	<u>(\$103,090)</u>	<u>\$198,697,047</u>
Less: Deferred amount on refunding (net)	(1,295,561)			
Total	<u>\$112,944,439</u>			

The University has a \$3,240,000 line of credit at 80% of the bank prime rate for interim financing of cash flow deficits. No amounts were outstanding at June 30, 2007 or 2006. The University has a \$260,000 letter of credit, effective through December 31, 2007, at a per annum fee of one and one half percent. In addition, amounts drawn against the letter of credit include interest at the bank prime rate plus one half percent per annum. No amounts were drawn against the letter of credit at June 30, 2007. The line of credit and letter of credit are secured by general revenues.

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE H - LONG-TERM LIABILITIES

The information listed below shows the components of the University's long-term liabilities:

	Balance at June 30, 2006	Additions	Reductions	Balance at June 30, 2007	Current Portion
Notes and bonds payable:					
General revenue bonds	\$91,875,000	\$24,435,000	\$2,070,000	\$114,240,000	\$2,150,000
Deferred amount on refunding	(1,354,450)		(58,889)	(1,295,561)	(58,889)
Other long-term liabilities:					
Compensated absences	2,633,028	178,900		2,811,928	100,000
Student loan - federal	70,841	15,546	31,080	55,307	16,433
Total other liabilities	<u>2,703,869</u>	<u>194,446</u>	<u>31,080</u>	<u>2,867,235</u>	<u>116,433</u>
Total long-term liabilities	<u>\$93,224,419</u>	<u>\$24,629,446</u>	<u>\$2,042,191</u>	<u>\$115,811,674</u>	<u>\$2,207,544</u>

As of June 30, 2007 and 2006, employees had earned but not taken annual vacation leave of approximately \$2,231,000 and \$2,057,000, respectively. The University has a commitment for accumulated sick leave of approximately \$581,000 as of June 30, 2007 and \$576,000 as of June 30, 2006. These amounts are reflected above as liabilities for compensated absences.

NOTE I - UNRESTRICTED NET ASSETS

The following summarizes the internal designations of the University's unrestricted net assets:

	June 30,	
	2007	2006
Capital projects and repair reserves	\$15,712,274	\$15,192,766
Auxiliary enterprises	1,377,650	1,386,375
Designated for departmental use	6,856,228	6,965,010
Amount obligated by contractual commitments	90,102	141,683
Undesignated	1,421,918	1,317,197
Total unrestricted net assets	<u>\$25,458,172</u>	<u>\$25,003,031</u>

NOTE J - COMMITMENTS AND CONTINGENCIES

The amount of funding required to complete construction in progress will come from the General Revenue Bond proceeds, institutional resources, gifts and capital appropriations from the State of Michigan. The costs to complete construction in progress approximate \$14,611,000.

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE J – COMMITMENTS AND CONTINGENCIES
(continued)

In the normal course of its activities, the University is party to various legal actions. After taking into consideration legal counsel's evaluation of pending actions, the University is of the opinion that the outcome thereof will not have a material effect on the financial condition of the University.

The University has entered into lease agreements with the State Building Authority (SBA) and the State of Michigan during prior fiscal years for Science East and West Buildings, Zahnow Library, West Complex, the Regional Education Center and Pioneer Hall renovations. The projects were financed with SBA Revenue Bonds and State Appropriations. The SBA bond issues are secured by a pledge of rentals to be received from the State of Michigan pursuant to the lease agreements between the SBA, the State of Michigan, and the University. During the lease terms, the SBA will hold title to each of the facilities; the State of Michigan will make all annual lease payments to the SBA from general fund appropriations; and the University will pay all operating and maintenance costs of the facilities. At the expiration of each lease, the SBA has agreed to sell the facilities to the University for the sum of one dollar each. The cost and accumulated depreciation for these facilities is reflected in the accompanying Statements of Net Assets.

NOTE K - SUPPORT ORGANIZATIONS

The Foundation is an independent corporation formed for the purpose of receiving funds for the sole benefit of the University. The Internal Revenue Service has ruled that the Foundation is qualified under Section 501(c)(3) of the Internal Revenue Code (Code) and is, therefore, not subject to tax under present federal income tax laws, and also is not a private foundation within the meaning of Section 509(a)(3) of the Code. Foundation Board of Director membership includes the following individuals: members of the Saginaw Valley State University Board of Control as appointed by the Board of Control, certain officers of the University as set forth in the Foundation bylaws, and other community representatives elected by the Foundation Board.

The University provided approximately \$958,000 of administrative support to the Foundation during fiscal 2007 and \$911,000 of support during fiscal 2006. These amounts were recorded as gifts and expenses in the statements of revenues, expenses, and changes in net assets. The Foundation transferred \$2,387,590 to the University during fiscal 2007 and \$2,454,342 during fiscal 2006. These amounts include endowment distributions and restricted and unrestricted gifts. According to the law of the State of Michigan, the Foundation Board may appropriate for expenditure for the uses and purposes for which an endowment is established so much of the net appreciation, realized and unrealized, in the fair value of the assets of an endowment over the historic dollar value as is prudent under the facts and circumstances prevailing at the time of the action or decision. Under the spending policy established by the Board, 4.00% of the moving average market value of endowment investments for the twelve quarters through September prior to the beginning of the fiscal year has been authorized for expenditure.

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14*, the Foundation is included in the financial statements of the University as a discretely presented component unit.

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE K - SUPPORT ORGANIZATIONS
(continued)

The Saginaw Valley Research and Development Corporation (SVRDC), a not-for-profit taxable entity, exists to foster economic development. The operations and net assets of SVRDC are not significant and are not included in these financial statements as a component unit of the University.

NOTE L – RETIREMENT PLAN

The University has a defined contribution retirement program for all qualified employees. Qualified employees include nearly all full-time employees. University contributions are made to the Teachers' Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) and are based on a percentage of qualified employee payroll. Employees maintain individual annuity contracts with TIAA-CREF and are fully vested. University contributions for the years ended June 30, 2007 and 2006 approximated \$4,691,000 and \$4,602,000, respectively, with annual covered payroll for participants of the plan approximating \$39,096,000 in 2007 and \$38,379,000 in 2006. The University has no liability for past service or post-employment benefit costs.

NOTE M - LIABILITY AND PROPERTY INSURANCE

The University participates with ten other Michigan public universities in the Michigan Universities Self-Insurance Corporation (MUSIC). This corporation's purpose is to provide insurance coverage for errors and omissions liability, comprehensive general liability, and property loss. The University has a retention amount from which it would pay losses related to errors and omissions, comprehensive general liability claims, and property claims. The second layer of coverage for losses exceeding the retention level is the responsibility of MUSIC. MUSIC has purchased excess insurance coverage for comprehensive general liability and property loss claims that exceed its level of responsibility. The payments made to MUSIC and premiums to excess carriers reflect the claims experience of each university.

SAGINAW VALLEY STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
(continued)

NOTE N – EXPENDITURES BY NATURAL CLASSIFICATION

The table below lists expenditures by natural classification by function for the fiscal year ending June 30, 2007:

Function	Salary & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Total
Instruction	\$23,631,466	\$ 7,140,796	\$ 201,258		\$ 2,027,665		\$33,001,185
Research	318,811	73,467		\$ 546	119,200		512,024
Public service	617,161	166,031	4,750		1,228,080		2,016,022
Academic support	6,360,193	1,905,032	365,408		2,799,943		11,430,576
Student services	2,686,876	836,310			1,225,503		4,748,689
Institutional support	5,368,222	1,785,430	74,528		3,632,876		10,861,056
Operations and maintenance of plant	3,589,091	1,398,624		2,263,275	1,768,995		9,019,985
Depreciation						\$11,221,633	11,221,633
Student aid	381,128		4,743,912		6,715		5,131,755
Auxiliary enterprises	3,061,220	923,395	227,391	827,638	5,101,916		10,141,560
Total	\$46,014,168	\$14,229,085	\$5,617,247	\$3,091,459	\$17,910,893	\$11,221,633	\$98,084,485

The table below lists expenditures by natural classification by function for the fiscal year ending June 30, 2006:

Function	Salary & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Total
Instruction	\$23,215,594	\$ 5,775,151	\$ 259,996		\$ 2,027,757		\$31,278,498
Research	410,763	62,110			227,575		700,448
Public service	530,251	105,268			1,270,105		1,905,624
Academic support	6,226,261	1,472,036	307,696		2,531,371		10,537,364
Student services	2,559,359	716,699			1,151,569		4,427,627
Institutional support	5,229,159	1,521,712			3,258,850		10,009,721
Operations and maintenance of plant	3,587,056	1,183,535		\$2,394,525	1,567,602		8,732,718
Depreciation						\$10,468,401	10,468,401
Student aid	365,846		4,594,251		14,034		4,974,131
Auxiliary enterprises	2,874,775	698,298	209,661	705,823	4,904,223		9,392,780
Total	\$44,999,064	\$11,534,809	\$5,371,604	\$3,100,348	\$16,953,086	\$10,468,401	\$92,427,312

Saginaw Valley State University
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007

Federal / Pass-Through Grantor Program Title	Federal CFDA Number	Agency Or Pass-Through Grant Number	Federal Expenditures
<u>U.S. Department of Education</u>			
Title IV Student Financial Assistance (Notes 1 and 5):			
Federal Supplemental Educational Opportunity Grant Program	84.007	E-P007A022069	\$ 158,381
Federal Work-Study Program	84.033	E-P033A022069	282,426
Federal Pell Grant Program (Note 3)	84.063	E-P063P020238	5,920,601
Federal Academic Competitiveness Grant	84.375	P375A060238	102,108
Federal SMART Grant	84.376	P376S060238	45,292
Loans and Loan Guarantees-Federal Direct Loan Program (Note 2)	84.268		<u>29,454,273</u>
Total Student Financial Assistance			35,963,081
Direct Programs:			
Career Ladder	84.195E	T195E010004	39,416
Global Business Initiative	84.153A	P153A050075	28,744
Global Business Initiative	84.153A	P153A050075	26,424
Transition to Teaching	84.350A	S350A020089-05	138,393
Transition to Teaching	84.350A	S350A020089-06	253,481
Crisis Management Intervention Center	84.116Z	P116Z050194	<u>17,602</u>
Total Direct Programs			504,060
Passed through Michigan Department of Education			
Improving Teacher Quality - Principal & Teacher Leaders	84.367	070290-142	59,395
Improving Math Teacher Quality	84.367	050290-0405	15,501
Improving Science Teacher Quality	84.367	050290-407	23,235
Improving English Teacher Quality	84.367	060290-659	86,135
Improving Math Teacher Quality	84.367	060290-428	129,205
Improving Science Teacher Quality	84.367	060290-421	103,822
Improving Math Teacher Quality	84.367	070290-025	51,723
Intensive Mentor Training	84.367A	050510 Project 1	13,518
Mathematics & Science Partnership	84.366	052410-MSPF2004	146,923
Mathematics & Science Partnership	84.366	062410-MSPF 2005	303,940
Mathematics & Science Partnership	84.366B	072410-MSPF2006	108,607
Michigan Gear Up/College Day Program 06/07	84.334S	P334S060004	<u>15,262</u>
Total Passed Through Michigan Department of Education			1,057,266
Passed Through University of California:			
Saginaw Valley National Writing Project	84.928A	94-MI05	19,139
Saginaw Valley National Writing Project	84.928A	94-MI05	<u>40,159</u>
Total Passed Through University of California			59,298
<u>U.S. Department of Commerce</u>			
Passed Through Industrial Technology Institute:			
SVMA/MMTC (Note 4)	11.611	70NANB5H1147	156,226
SVMA/MMTC (Note 4)	11.611	70NANB5H0059	<u>1</u>
Total Passed Through Industrial Technology Institute			156,227
<u>U.S. Department of Labor</u>			
Passed Through Michigan State University			
WIRED - Workforce Innovation Regional Economic Development	17.261	61-7295-308	<u>572,621</u>
Total Passed Through Michigan State University			572,621

See Notes to Schedule of Expenditures of Federal Awards

Saginaw Valley State University
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007

(continued)

Federal / Pass Through Grantor Program Title	Federal CFDA Number	Agency Or Pass Through Grant Number	Federal Expenditures
<u>National Aeronautics and Space Administration</u>			
Passed Through University of Michigan:			
Michigan Space Grant	43.002	NGT-40007	\$ 833
Investigation of a Novel Alkylchlorogermane Synthesis	43.UNKNOWN	*	2,500
Math for Minorities Program	43.UNKNOWN	*	5,000
Summer Camp Scholarships	43.UNKNOWN	*	3,050
Total Passed Through University of Michigan			<u>11,383</u>
<u>National Science Foundation</u>			
Direct Programs:			
MRI: Acquisition of a Transmission Electron Microscope	47.041	619270	<u>383,722</u>
Total Direct Programs			<u>383,722</u>
<u>U.S. Department of Energy</u>			
Passed through Michigan Department of Labor & Economic Growth			
Biofuels Pilot Plant Project	81.041	PLA-06-54	<u>11,517</u>
Total Passed Through Michigan Department of Labor & Economic Growth			<u>11,517</u>
<u>U.S. Department of Health and Human Services - HRSA</u>			
Direct Programs:			
Advanced Education Nursing Traineeship	93.358	A10HP05111	<u>24,678</u>
Total Direct Programs			<u>24,678</u>
Total Expenditures of Federal Awards			<u>\$ 38,743,853</u>

* The agency or pass-through grant number is not available.

See Notes to Schedule of Expenditures of Federal Awards

Saginaw Valley State University

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

- Note 1:** As defined in OMB Circular A-133, Student Financial Assistance programs are considered to be clusters of programs and, accordingly, have been classified as one program for testing purposes. Student Financial Assistance is defined as a major program.
- Note 2:** Under the William D. Ford Federal Direct Loan Program, students and parents borrow funds directly from the federal government; the University is responsible for verifying student eligibility, electronically transmitting the loan records to the federal processor and distributing the loan funds directly to the student account or parent borrower. For the year ended June 30, 2007, Direct Student Loans totaled \$29,454,273 (\$14,988,861 subsidized, \$12,808,107 unsubsidized, and \$1,657,305 PLUS). These amounts were excluded from total federal expenditures when determining the dollar threshold for major programs.
- Note 3:** The Pell grant expenditures are the actual amounts incurred through June 30, 2007. The University will process amendments subsequent to year end to finalize the 2006-2007 award year. Amounts reported do not include an administrative cost allowance of \$11,855.
- Note 4:** The grant expenditures disclosed include both the federal portion (60%) and State of Michigan portion (40%) of the grant.
- Note 5:** As of July 1, 1996, Saginaw Valley State University terminated participation in the Federal Perkins Loan Program (CFDA Number 84.038). The University will retain and administer the loan portfolio until all outstanding loans are liquidated. There were \$52,656 in loans outstanding as of June 30, 2007. Additionally, the University must return to the United States Department of Education annually the Federal share of cash-on-hand as of June 30. Federal cash-on-hand as of June 30, 2007 was returned in July 2007.
- The University utilizes the services of Campus Partners to administer the repayment of Perkins loans and perform certain due diligence procedures. The most recent available report on Campus Partners' compliance and internal controls was received and reviewed. No significant items of noncompliance or control weaknesses were noted.
- Note 6:** The accompanying Schedule of Expenditures of Federal Awards has been prepared on the accrual basis with the exception of grants, which are generally recorded when received or when billable.



ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

Independent Auditors' Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards*

Board of Control
Saginaw Valley State University

We have audited the financial statements of Saginaw Valley State University (University) and its discretely presented component unit, Saginaw Valley State University Foundation, as of and for the year ended June 30, 2007, and have issued our report thereon dated August 24, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the University's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the University's financial statements that is more than inconsequential will not be prevented or detected by the University's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the University's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Control, management of the University, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Andrews Hooper & Pavlik P.L.C.

Saginaw, Michigan
August 24, 2007



ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control Over
Compliance in Accordance with OMB Circular A-133

Board of Control
Saginaw Valley State University

Compliance

We have audited the compliance of Saginaw Valley State University (University) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The University's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

The University's financial statements include the operations of its discretely presented component unit, Saginaw Valley State University Foundation, which received \$-0- in federal awards. An OMB Circular A-133 audit was not required for Saginaw Valley State University Foundation.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

We did not audit the University's compliance with the requirements governing billing, recordkeeping, payment processing, reporting and due diligence functions for the University's Federal Perkins Loan Program. Those requirements govern functions performed by Campus Partners. Campus Partners's compliance with the requirements governing the functions it performs for the University was audited by another auditor, whose report was furnished to us. Based on our review of the other auditor's report, we have determined that all of the compliance requirements that are applicable to the University's Federal Perkins Loan Program are addressed either in our report or the report of the other auditor. Based on our review of the other auditor's report, we have determined that it does not contain any reportable findings of noncompliance pertaining to the services that Campus Partners performs for the University.

Internal Control Over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

The internal control policies and procedures relating to billing, recordkeeping, payment processing, reporting and due diligence functions for the University's Federal Perkins Loan Program are performed at Campus Partners. For these control categories, other auditors obtained an understanding of the design of relevant policies and procedures, determined whether they have been placed in operation and assessed control risk. The other auditor's report has been furnished to us; however, the scope of our work did not extend to these internal control policies and procedures established and maintained at Campus Partners.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Control and management of Saginaw Valley State University and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Andrews Hooper & Pavlik P.L.C.

Saginaw, Michigan
August 24, 2007

Saginaw Valley State University

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	<u>Unqualified</u>		
Internal control over financial reporting:			
Material weakness identified?	<u> </u> Yes	<u> X </u> No	
Significant deficiencies identified not considered to be material weakness?	<u> </u> Yes	<u> X </u> None reported	
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No	

Federal Awards

Internal control over major programs:			
Material weakness identified?	<u> </u> Yes	<u> X </u> No	
Significant deficiencies identified not considered to be material weakness?	<u> </u> Yes	<u> X </u> None reported	
Type of auditor’s report issued on compliance for major programs:	<u>Unqualified</u>		
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	<u> </u> Yes	<u> X </u> No	

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Cluster and Federal Programs</u>
84.007	Student Financial Assistance: Federal Supplemental Educational Opportunity Grant Program
84.033	Federal Work-Study Program
84.038	Federal Perkins Loan Program
84.063	Federal Pell Grant Program
84.375	Federal Academic Competitiveness Grant
84.376	Federal SMART Grant
84.268	Federal Direct Loan Program
17.261	U.S. Department of Labor: WIRED – Workforce Innovation Regional Economic Development
47.041	National Science Foundation: Major Research Instrumentation Program MRI – Acquisition of Transmission Electron Microscope

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$300,000</u>		
Auditee qualified as low-risk auditee?	<u> X </u> Yes	<u> </u> No	

Saginaw Valley State University

Schedule of Findings and Questioned Costs (continued)

Section II – Financial Statements Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

Saginaw Valley State University
Summary Schedule of Prior Audit Findings
Year ended June 30, 2007

No matters were reported.